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SUBJECT: MADAGASCAR'S ECONOMIC PARTNERSHIP WITH EU UNDER THREAT

REF: A) 09 ANTANANARIVO 573, B) 09 ANTANANARIVO 604

11. (SBU) SUMMARY: Since 2002 the European Union (EU) and the African, Caribbean and Pacific Group of States (ACP) have been working to put in place new trade agreements: the Economic Partnership Agreements (EPAs), designed to enhance cooperation in all areas related to trade. Madagascar signed an interim EPA on December 11, 2007 and continues to enjoy trade preferences regarding its exports to the EU. However, due to the ongoing political crisis in Madagascar, the de facto GOM will not be allowed to continue negotiation of EPAs, nor to sign the interim EPAs on August 28. A temporary waiver has been granted until the next EU/Malagasy political dialogue in October. If the EU continues its suspension of cooperation at that time, Madagascar's export costs to the EU will rise, adding another threat to the country's future economic development. END SUMMARY.

EPAS COMPATIBLE WITH WTO RULES, AND GOOD FOR BUSINESS

12. (U) Since 1976, the Lome agreement outlined the trading and political relationship between the EU and Africa, the Caribbean and Pacific group (ACP), which includes 77 developing countries. This agreement gave unilateral preferences for ACP products into the EU, which was eventually challenged in the WTO by non-ACP developing countries. WTO rules on regional trade agreements authorize developed countries to give unilateral preferences to only two groups of developing countries: either Least Developed Countries, or all developing countries. Hence, since 2002 the EU and ACP have been working to put in place new trade agreements: the Economic Partnership Agreements (EPAs) which are also designed to enhance cooperation in services, investment and intellectual property. The goal is to ensure a stable business environment and rule of law that will attract foreign investment and help ACP countries integrate further into the global economy.

13. (U) The EPAs should have replaced the former trade arrangements between the ACP and EU starting from January 2008, given that the waiver granted by the WTO expired at the end of 2007. However, EPA negotiations did not conclude on time, so the EU and ACP countries decided to sign interim agreements. Madagascar initialed an interim EPA on December 11, 2007 and continues to enjoy trade preferences (governed by EU regulation CE 1528/2007).

POLITICAL CRISIS JEOPARDIZING EPAS

14. (U) Following the March 17 coup, the EU launched a process of consultations in accordance with the Article 96 of the Cotonou Agreement, and has suspended its development work indefinitely (with the exception of humanitarian aid and support that directly benefits the population). After the political dialogue held in Brussels on July 6, the EU resolved to maintain the current suspension. Furthermore, Madagascar is not allowed to continue the negotiation of EPAs, nor to sign the interim EPAs expected to be completed on August 28.

¶5. (U) The process of consultations launched by the EU lasts 120 days. Another political dialogue will take place in October and the EU will decide at that time on the continuation of its cooperation with Madagascar. In the meantime, regulation CE 1528/2007 continues to govern trade between Madagascar and the EU.

EXPORTS WILL SUFFER IF COOPERATION REMAINS SUSPENDED

¶6. (SBU) The outcome of the political dialogue depends on the evolution of the political situation in Madagascar. If cooperation remains formally suspended, Madagascar would not benefit from an EPA, nor from the Everything but Arms initiative (the Generalized System of Preferences granted to least developed countries). As a result, Madagascar's exports will be subject to custom duties and become more expensive relative to products benefiting from trade preferences. In 2008, Madagascar's exports to the EU amounted to USD 726.6 million, representing 60 percent of total exports. Agricultural goods (coffee, vanilla, spices, cocoa, clove, and sugar) and fisheries and textile products represent the bulk of these exports. Hence, rural farmers and low-skilled workers who are the poorest in the country will be hit severely by a suspension of EU cooperation with Madagascar.

MADAGASCAR'S FUTURE ECONOMIC DEVELOPMENT AT STAKE

¶7. (SBU) Apart from the trade aspect, the EPAs affect development cooperation. For Madagascar, this includes promotion of the fishing sector (capacity building, investment in infrastructure and equipment), private sector development (investment promotion, competitiveness enhancement, financial sector development, promotion of the mining sector, promotion of the tourism sector), and infrastructure in the energy, transportation and ICT sectors. The European Development Fund finances this development cooperation in the context of the Cotonou Agreement.

¶8. (SBU) COMMENT: The stakes are thus very high for the EU's October political dialogue, with far-reaching impact on both EU/Malagasy trade and economic development. With the United States' AGOA preferences also currently endangered by Madagascar's political crisis (reftel A), much depends on the outcome of current talks among the feuding political movements (reftel B). If a political solution cannot be reached, and Madagascar cannot thereby quickly restore the rule of law, the loss or expected loss of US and EU preferential trade agreements is certain to further undermine the already weakened economy in November/December 2009.